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Project Number: ERC0182

Submission on the Draft Rule Change on Meter Replacement Processes

Introduction

1. This is Vector Limited's ("Vector")¹ submission on the Australian Energy Market Commission's ("AEMC") consultation paper on the draft National Electricity Amendment (Meter Replacement Processes) Rule 2015, dated 21 May 2015.
2. We believe the proposed rule change on meter replacement processes is unnecessary. This proposal would only add to the complexity of the ongoing reforms in the electricity metering market without overriding benefits to consumers.
3. We support the amendments by the Australian Energy Market Operator ("AEMO") to the meter churn procedures which will come into effect on 1 September 2015.
4. We discuss our views below.
5. No part of this submission is confidential and Vector is happy for it to be made publicly available.
6. Vector's contact person for this submission is:

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¹ Vector is one of New Zealand's largest listed companies and the country's largest electricity distribution network, supplying the Auckland region. Vector also provides gas distribution network services in more than 20 towns and cities in New Zealand's North Island. It further provides gas supply and treatment, electricity and gas metering services, and fibre optic broadband communication networks in Auckland and Wellington.

Draft rule change on meter replacement processes unnecessary

7. We do not support the draft rule change on meter replacement processes, triggered by ERM Power's rule change request, which intends to de-link the meter replacement process from the retail transfer process.

Increased complexity and disruption to ongoing reforms

8. We consider that the creation of new/additional rules to address transitional issues in the retail transfer process (which involve only a number of days) would add to the complexities of the ongoing reforms in the metering market.
9. The metering market in the National Electricity Market ("NEM") is currently subject to a raft of changes, including reforms to expand competition in metering and related services to small businesses and residential consumers. The Australian Energy Regulator is also in the process of making distribution determinations for NEM distributors (which include metering services) for the next regulatory control period.

Additional costs and unintended consequences

10. In particular, the creation of "prospective" Metering Coordinator, Metering Provider, and Metering Data Provider roles (with limited rights and obligations) before the retail transfer is complete creates more rules and obligations, potentially creating confusion, and additional costs rather than savings for the industry.
11. Market participants are in the process of understanding the new roles being created by the AEMC for the shift to competitive market arrangements effective 1 July 2017; the creation of these "prospective" roles would only cause additional disruption during the transition period. It is not unreasonable to expect that the project and system costs, and compliance costs, associated with the prospective (interim) roles would not be much different than the costs of establishing the permanent roles. The cost to the relevant market participants would effectively double, having to do a similar process twice.
12. The draft rule change is likely to entrench a long delay in the retail transfer process because of the 'workarounds' associated with the prospective roles. This would defeat the goal of getting the switching process down to 3-5 days.
13. The draft rule change could also result in unintended consequences. Retail transfer processes that are not completed, for various reasons, are not uncommon. Assuming a prospective retailer has already changed the metering installation at a connection point and a retail transfer process is unsuccessful, the prospective retailer would then have to re-install the meter back at that connection point, incurring unnecessary costs.

Greater regulatory burden

14. The additional complication of creating additional/transitional rules in the context of the ongoing reforms and the need to phase out those rules once competitive arrangements are in place increase the regulatory burden.
15. Any further proposals to amend the rules relating to metering should be undertaken as part of the AEMC rule change expanding competition in metering and related services. This would avoid the creation of a further layer of regulatory processes and ensure a smooth transition to competitive arrangements.

Market competition provides stronger incentives for resolving retailer-to-retailer issues

16. The consultation paper (page 12) states that the rule change would “strengthen requirements for cooperation between incumbent and prospective metering roles”. We believe that market competition, as envisaged by the rule change expanding competition in metering and related services, provides stronger incentives for market participants to address retail transfer issues (i.e. reach commercial solutions).

No overriding benefits to consumers

17. Given the complexities the proposed rule change would add to ongoing reform processes (described above), we cannot see any overriding benefits for consumers from its implementation.

Support for AEMO’s amendments to the meter churn procedures

18. Reinforcing the above view, we support AEMO’s amendments to the meter churn procedures which will come into effect on 1 September 2015.
19. AEMO’s amendments clarify that when a retailer gains a customer, it cannot appoint a new Metering Coordinator, Metering Provider, or Metering Data Provider until after the retail transfer period is complete.

The New Zealand experience

20. The consultation paper (page 21) observes that in the New Zealand metering market:

...the incoming retailer receives the customer with the existing meter, and changes the meter post-transfer. **The time taken to change the meter is typically only one to two days post-transfer, and so the effects on retailers are small.**

It is also understood, however, that in some instances the outgoing and incoming retailers agree that the meter can be churned at some other time. Here, **arrangements for meter churn are worked out between the two retailers.**

[emphasis added]

21. The consultation paper (page 21) also observes that:

...the market in New Zealand appears able to largely resolve many of the issues identified through bilateral arrangements between the different parties.

[emphasis added]

22. The above examples show the effectiveness of the market-led model in New Zealand in providing incentives for market participants to address retail transfer issues through commercial solutions. We particularly note that while the completion of a retail transfer process allows the retailer to churn a meter, it is not necessary (or it may not be practical) to do that every time a transfer takes place – the metering asset could be left on site. Consumers can switch retailers as often as they want, but it would be unnecessary and too costly for meters to be churned at the same rate, particularly once smart meters are installed.

23. The NEM metering market is on the cusp of a technological shift to smart meters that are expected to deliver significant consumer benefits. Rather than introduce more rules that would add complexity to the transition to competitive arrangements, such as the draft rule change, the ongoing reforms should be allowed to take their course to facilitate this transition. Harnessed properly, there is an opportunity for smart meters to contribute to reducing the duration of the consumer switching process through the provision of more timely and accurate reads. This also reduces the number of billing disputes and the cost of resolving those disputes.

Concluding comments

24. Our previous submissions on the ongoing reforms in the NEM metering market consistently supported the expansion of competition in this market. By imposing more rules to address transitional issues that are likely to diminish with the emergence of market competition, the rule change for meter replacement processes proposed in this consultation would not be consistent with the policy intent of the ongoing reforms.

25. In this regard, the role of the regulator should be to facilitate the transition to greater market competition rather than erect more barriers to its emergence, so the benefits from smart meters can be realised by NEM consumers in a timely manner.

26. The AEMC should therefore not pursue the proposed rule change on meter replacement processes any further.

27. We are happy to discuss with AEMC officials any aspect of this submission.

Yours sincerely

For and on behalf of Vector Limited

A handwritten signature in blue ink, appearing to read 'Richard Sharp'.

Richard Sharp

Head of Regulatory